METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES FOR NURSING FACILITIES

STANDARD NURSING FACILITY SERVING ADULTS

A statewide prospective rate of payment shall be determined at least annually for Oklahoma nursing facilities serving adults ("NFs"). The rate for State fiscal year 1997 (July 1 through June 30) will be determined pursuant to these methods and standards and approved by the Oklahoma Health Care Authority Board in advance of that fiscal year.

The rate will be established based on analyses of cost reports and other relevant cost information, the use of national and, where appropriate, Oklahoma-specific trends in costs, including trends in salary levels and changes in minimum wage levels, analyses of the economic impact of changes in law or regulations, and discussions with recognized representatives of the nursing home industry.

The rate is at, or above, the level that the Oklahoma Health Care Authority (OHCA) finds reasonable and adequate to reimburse the costs that must be incurred by economically and efficiently operated facilities to the extent specified by 42 U.S.C. Section 1396a(a)(13)(A).

A. COST ANALYSES

The Oklahoma Health Care Authority (OHCA) is principally responsible for implementing the Medicaid program in Oklahoma. OHCA staff will prepare necessary analyses to support the rate determination process, as described below.

1. UNIFORM COST REPORTS

Each Medicaid-participating nursing facility must submit, on uniform cost reports designed by the Authority, cost and related statistical information necessary for rate determination.

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES FOR NURSING FACILITIES

a. **Reporting Period.** Each nursing facility must prepare the cost report to reflect the allowable costs of services provided during the immediately preceding fiscal year ending June 30. Where the ownership or operation of a NF changes during the year or where a new operation is commenced, a fractional year report is required, covering each period of time the NF was in operation during the year.

b. **Report Deadline.** The report must be filed by September 1 of each year. Extensions of not more than 30 days may be granted on a showing of just cause.

c. **Accounting Principles.** The report must be prepared on the basis of generally accepted accounting principles and the accrual basis of accounting, except as otherwise specified in the cost report instructions.

d. **Signature.** The cost report shall be signed by an owner, partner or corporate officer of the NF, by an officer of the company that manages the NF, and by the person who prepared the report.

e. **Audits of Cost Reports.** The Authority will conduct a desk review to verify the completeness and mathematical accuracy of all totals and extensions in each cost report. Census information may be independently verified through other OHCA sources. In addition, a sample number of cost reports will be audited independently by an auditor retained by OHCA. Any NF that is subject to an audit is required to make its records available to OHCA and to any auditor engaged by OHCA.

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
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2. ALLOWABLE AND UNALLOWABLE COSTS

Only "allowable costs" may be included in the cost reports. (Costs should be net of any offsets or credits.) Allowable costs include all items of Medicaid-covered expense that NFs incur in the provision of routine (i.e., non-ancillary) services. "Routine services include, but are not limited to, regular room, dietary and nursing services, minor medical and surgical supplies, over-the-counter medications, transportation, and the use and maintenance of equipment and facilities essential to the provision of routine care. Allowable costs must be considered reasonable, necessary and proper, and shall include only those costs that are considered allowable for Medicare purposes and that are consistent with federal Medicaid requirements. (The guidelines for allowable costs in the Medicare program are set forth in the Medicare Provider Reimbursement Manual ("PRM"), HCFA-Pub. 15.) Ancillary items reimbursed outside the NF rate should not be included in the NF cost report and are not allowable costs.

3. COMPUTATION OF THE STATEWIDE FACILITY BASE RATE

Cost reports used to calculate the rate were those filed for the year ended June 30, 1996. ("Base year"). A state plan will be submitted when costs are rebased. A description of the calculation of the base year per diem rate is as follows:

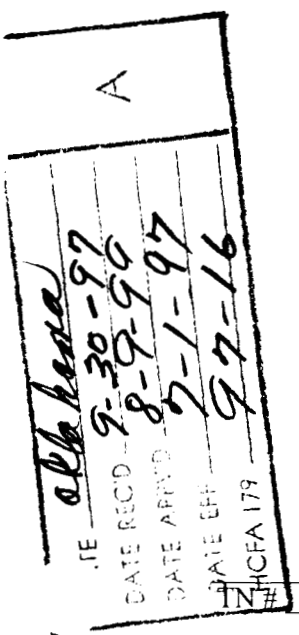
A. Primary Operating Costs

1. Determine the weighted mean primary operating per diem by summing all reported primary operating expenses of all nursing facilities serving adults (excluding facilities serving only AIDS patients) and dividing by total period patient days. Primary operating costs consists of all non-capital costs excluding administrative services expenses, which are described on page 1.3.

2. Determine the audit adjustment per diem to be extrapolated to all reporting facilities based on desk reviews and independent sample audit findings. The audit adjustment is based on an average of the difference between reported and audited cost reports for field audited facilities.

3. Determine the adjusted primary operating per diem by subtracting the audit adjustment per diem (step 2) from the weighted mean primary operating costs per diem determined in step 1.

4. Trend forward the adjusted primary operating per diem from the midpoint of the base year to the midpoint of the rate year using the inflation update factors. The Authority will use the update factors published in the Data Resources Inc., ("DRI") nursing home marketbasket index for the fourth calendar quarter of the previous fiscal year.



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For example, for the rates effective July 1, 1997, the Authority used the update factors for the fourth quarter of calendar year 1996.

B. Administrative Services

An imputed administrative services allowance will be used in lieu of actual owner/administrator salary and non-salary compensation. The imputed administrative services allowance is the state-established limit or value for the purposes of calculating the reimbursement rate. A base allowance of $2.10 was established in lieu of 1993 reported costs of $2.43 for all NFs. The allowance will be trended to the midpoint of the rate year using the DRI update factor described in A (4) above.

For example, the administrative services allowance for SFY 97 was $2.41. The $2.41 was multiplied by the 3.3% update factor published in the DRI index for the fourth quarter of calendar year 1996 to adjust the allowance to $2.49 for SFY 98.

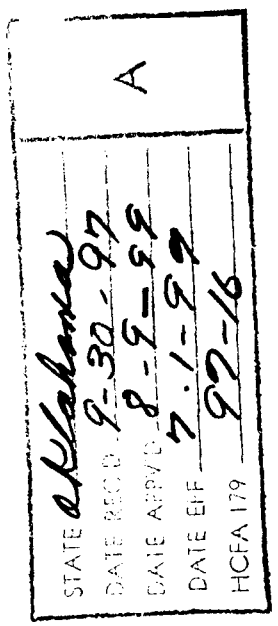
C. Capital

An imputed allowance per diem for capital will be used in lieu of actual depreciation, interests, and lease related to facilities and equipment. A fair rental value of $4.23 per bed (assuming 95% occupancy) was derived initially in 1985 by the Department of Human Services from an analysis of construction costs identified from Certificate of Need Applications and consideration of appropriate costs of debt and non-debt financing. The $4.23 value was updated to the FY96 rate year using the Marshall Swift replacement cost multipliers for facilities with Class C construction (District Comparative Cost Multiplier, Central Region) published in the January 1995 index. The updated value was multiplied by FY94 available bed days (from cost report data) to arrive at the projected replacement costs. The replacement costs were adjusted by an imputed occupancy percentage of .88 and divided by the FY94 occupied bed days to arrive at an allowance per patient day of $6.20 for FY96. For FY97, the $6.20 allowance was adjusted by the January 1996 Marshall Swift Index factor of 1.9% to $6.32. For future rate periods, the allowance will be adjusted by the multiplier published in the January index of the current rate year.

For example, the FY97 allowance of $6.32 was multiplied by the 1.8% factor published in the January 1997 index to arrive at the FY98 allowance of $6.43.

D. Adjustment For Change In Law Or Regulation

The Authority also considers possible effects on rate year costs compared to base year costs that might not be fully accounted for by the DRI index described



above. Inasmuch as the index is an estimate of actual and forecasted national rates of change in the price of nursing home goods and services, DRI is not specific to any state. Thus during a given period, it might not sufficiently account for the economic effects of changes in federal laws or regulations which have a disparate impact on Oklahoma, or of changes in state laws, rules or circumstances that only affect Oklahoma.

The following circumstances may cause an adjustment to rate year costs: additional costs incurred to meet new requirements imposed by government regulatory agencies, taxation, authorities, or applicable law (e.g., minimum staffing requirements, social security taxation of 501(c) (3) corporations, minimum wage change, etc.) and implementation of federal or state court orders and settlement agreements.

OHCA will evaluate available financial or statistical information, including data submitted on cost reports and special surveys to calculate any base rate adjustment. These adjustments will become permanent until such time a state plan amendment is submitted to rebase the rates.

E. Statewide Facility Base Rate

The statewide facility base rate is the sum of the primary operating per diem, the administrative services per diem, the capital per diem and the adjustment for changes in law or regulation.

4. ENHANCEMENTS

The Authority may further adjust the statewide facility base rate to include estimates of the cost of enhancements in services that are not otherwise required by law but which the Authority wishes to recommend as the basis for inclusion in the NF rates.

Effective May 1, 1997 the State will pay an interim adjustment of $3.15 per diem for specified staff to facilities who have elected to participate in the wage enhancement program.

Allowable costs include the salaries and fringe benefits for the following classifications: licensed practical nurses (LPNs), nurse aides (NAs), certified medication aides (CMAs), social service director (SSDs), other social service staff (OSSS), activities directors (ADs), other Activities staff (OAS), and therapy aid assistants (TAA). These classifications do not include contract staff.

A settlement will be made based on the variance in the amount of enhanced payments and the amount expended for wages and benefits paid for the specified staff. The settlement will be capped at $3.15 per day.

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Facility-specific target rates were determined for each provider. Fiscal year 1995 costs were used to set the rates. The target rates were calculated as follows:

1. The reported salaries and wages for the specified staff were summed for each facility (specified staff salaries)

2. An employee benefits ratio was determined by dividing total facility benefits by total facility salaries and wages.

3. Total specified staff salaries were multiplied by the employee benefits ratio calculated in 2, above, to determine allowable employee benefits.

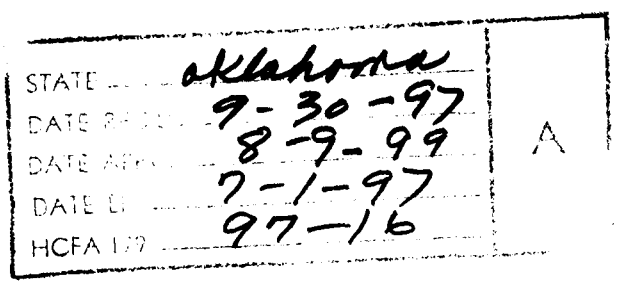
4. Specified staff salaries and allowable employee benefits were summed and divided by total facility patient days to arrive at the base year allowable cost per diem.

5. The base year allowable cost per diem for each facility was trended forward by factors of 2.9 percent and 3.1 percent.

6. An adjustment of $3.15 per day was added to the trended base year costs to arrive at the target rate for each facility.

5. SPECIALIZED SERVICES

Payment will be made for non-routine nursing facility services identified in an individual treatment plan prepared by the State MR Authority. Services are limited to individuals approved for NF and specialized services as the result of a PASSR/MR Level II screen. The per diem add-on is calculated as the difference in the statewide standard private MR base rate described on Attachment 4.19-D page 2.9 and the statewide NF facility base rate in Section 3 E above.



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Attachment 4.19-D
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6. **COSTS OF COMPLIANCE WITH OMNIBUS BUDGET RECONCILIATION ACT (OBRA) OF 1987**

All of the costs of compliance appear in provider cost reports used to develop rates. Therefore, no further adjustment or add-on is required.

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TN#_____ Approval Date_____ Effective Date_____
Supersedes
TN#_____

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES FOR NURSING FACILITIES

STANDARD NURSING FACILITY SERVING PEDIATRICS

A statewide prospective rate of payment shall be determined at least annually for Oklahoma nursing facilities serving pediatrics (persons under age 21). The rate for the periods of January 11, 1996 through December 31, 1996, and January 1, 1997 to June 30, 1997, was determined pursuant to these methods and standards and approved by the Oklahoma Health Care Authority Board in advance of these periods.

The rate ($188.66 per day) and its components will be used as the base for calculating the prospective rate for future rate periods beginning on or after July 1, 1997.

The rate will be established based on analyses of cost reports and other relevant cost information, the use of national and, where appropriate, Oklahoma-specific trends in costs, including trends in salary levels and changes in minimum wage levels, analyses of the economic impact of changes in law or regulations, and discussions with recognized representatives of the pediatric nursing home industry.

The rate is at, or above, the level that the Oklahoma Health Care Authority (OHCA) finds reasonable and adequate to reimburse the costs that must be incurred by economically and efficiently operated facilities to the extent specified by 42 U.S.C. Section 1396a(a)(13)(A).

A. **COST ANALYSES**

The Oklahoma Health Care Authority (OHCA) is principally responsible for implementing the Medicaid program in Oklahoma. OHCA staff will prepare necessary analyses to support the rate determination process, as described below.

1. **UNIFORM COST REPORTS**

Each Medicaid-participating pediatric nursing facility must submit, on uniform cost reports designed by the Authority, cost and related statistical information necessary for rate determination.

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES FOR NURSING FACILITIES

a. **Reporting Period.** Each pediatric nursing facility must prepare the cost report to reflect the allowable costs of services provided during the immediately preceding fiscal year ending June 30. Where the ownership or operation of a PNF changes during the year or where a new operation is commenced, a fractional year report is required, covering each period of time the PNF was in operation during the year.

b. **Report Deadline.** The report must be filed by August 31 of each year. Extensions of not more than 30 days may be granted on a showing of just cause.

c. **Accounting Principles.** The report must be prepared on the basis of generally accepted accounting principles and the accrual basis of accounting, except as otherwise specified in the cost report instructions.

d. **Signature.** The cost report shall be signed by an owner, partner or corporate officer of the PNF, by an officer of the company that manages the PNF, and by the person who prepared the report.

e. **Audits of Cost Reports.** The Authority will conduct a desk review to verify the completeness and mathematical accuracy of all totals and extensions in each cost report. Census information may be independently verified through other OHCA sources. In addition, a sample number of cost reports will be audited independently by an auditor retained by OHCA. Any PNF that is subject to an audit is required to make its records available to OHCA and to any auditor engaged by OHCA.

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES FOR NURSING FACILITIES

2. **ALLOWABLE AND UNALLOWABLE COSTS**

Only "allowable costs" may be included in the cost reports. (Costs should be net of any offsets or credits.) Allowable costs include all items of Medicaid-covered expense which pediatric nursing facilities (PNFs) incur in the provision of routine (i.e., non-ancillary) services. "Routine services" include, but are not limited to, regular room, dietary and nursing services, minor medical and surgical supplies, over-the-counter medications, transportation, and the use and maintenance of equipment and facilities essential to the provision of routine care. Allowable costs must be considered reasonable, necessary and proper, and shall include only those costs that are considered allowable for Medicare purposes and that are consistent with federal Medicaid requirements. (The guidelines for allowable costs in the Medicare program are set forth in the Medicare Provider Reimbursement Manual ("PRM"), HCFA-Pub. 15.) Ancillary items reimbursed outside the PNF rate should not be included in the PNF cost report and are not allowable costs.

3. **DEVELOPMENT OF THE BASE YEAR NON-CAPITAL COST**

In developing the rates for the periods of January 11, 1996 to December 31, 1996, and January 1, 1997 to June 30, 1997, OHCA used the most recently available cost reports which were from FYE June 30, 1995. OHCA staff determined the statewide average per diem non-capital cost during the base year using the reported weighted mean primary operating costs ($157.77) and an imputed administrative services allowance ($2.26).

Audit Adjustments. The weighted mean primary operating costs per diem were subject to audit adjustments made during desk reviews, and further adjustment based on independent sample audit findings extrapolated to all of the reporting PNFs. The audit adjustment is based on an average of the difference between reported and audited cost reports for field audited facilities.

Administrative Services. An imputed administrative services allowance was used in lieu of actual owner/administrator salary and non-salary compensation. The imputed administrative services allowance is the state established limit or value for administrative services, for the purpose of calculating the reimbursement rate. For FY 95, the administrative services allowance was $2.26.

The average per diem non-capital costs for this subsection was calculated as follows: weighted mean primary operating cost ($157.77), less ($.04) audit adjustment, plus ($2.26) administrative services allowance, for a total of $159.99.